PREVIEW: US nonfarm payrolls data is due Friday, March 8th, at 13:30GMT/08:30EST; payrolls growth and wage gains are both expected to cool

SUMMARY: The pace of nonfarm payrolls growth is expected to cool in February, though the unemployment rate is likely to be unchanged. Weekly jobless claims that coincide with the BLS survey window ticked up relative to the January period, both on an absolute and average basis; consumers also became more pessimistic about labour market prospects in February, both in terms of the present situation and the outlook; the employment sub-indices within the ISM manufacturing and services PMI data both fell on the month too. Analysts explained away the one-off nature of the bounce in January's average hourly earnings, and expect this month's data will also show a cooling in wage gains, both on a monthly and annualised basis, while workweek hours are seen ticking up – ahead, analysts have been arguing that broader trends and forward-looking indicators suggest wage growth will continue to cool in the months ahead, allowing the Fed to become more confident that inflation is easing sustainably, helping it to pivot to looser monetary policy in the months ahead.

EXPECTATIONS: Analysts expect 200k nonfarm payrolls will have been added to the US economy in February, cooling in pace from the 353k reported in January (current trend rates: 3-month average of 289k, 6-month average 248k, and 12-month average of 244k). The unemployment rate is likely to remain unchanged at 3.7%. Average hourly earnings growth is seen cooling to +0.3% M/M after the +0.6% rise in January, while the annual rate is seen paring to 4.4% Y/Y from 4.5% prior. Average workweek hours are seen ticking up to 34.3hrs (vs 34.1hrs previously).

UNEMPLOYMENT CLAIMS: In the week that corresponds with the BLS survey window, weekly initial jobless claims printed 202k, slightly up from the 189k in the January survey week, with the four-week average ticking up from 204k to 216k. Continuing claims printed 1.905mln in the corresponding week, up from 1.828mln, with the four-week average ticking up to 1.88mln from 1.83mln.

BUSINESS SURVEYS: Within business surveys, the employment sub-index in the ISM manufacturing PMI fell from 47.1 to 45.9 – remaining in contraction territory for a fifth consecutive month. The employment index in the ISM services gauge fell into contraction, from 50.5 in January to 48.0 in February (contraction for the second time in three months); respondents said they had lost employees due to normal attrition, and were having issues backfilling positions, though employment was currently holding at post-peak levels, and firms were planning to bring in new associates as spring approaches.

CONSUMER CONFIDENCE: The Conference Board's consumer confidence gauge for February noted that assessments of the present situation weakened in February (41.3% of consumers said jobs were 'plentiful,' down from 42.7% in January; 13.5% of consumers said jobs were 'hard to get,' up from 11.0% in January). Consumers' view on employment also became less favourable, with expectations for the next six months deteriorating in February, driven by renewed pessimism, including on labour market conditions (14.7% expected more jobs to be available, down from 15.6% in January, while 17.3% anticipate fewer jobs, up from 16.7%).

WAGES: Analysts have explained away the +0.6% M/M bounce in the January wages data, arguing that it was a function of one-off factors that will not be repeated in February (harsh winter weather, minimum wage hikes across many states). Indeed, many continue to make the case that wage growth will continue to ease ahead. Within the January JOLTs data (the most recent, but note we are due to get February payrolls data on Friday), headline job openings eased to 8.863mln from a revised 8.889mln, the quits rate fell to 2.1% from 2.2%, the hires rate eased to 3.6% from 3.7%, while the rate of job openings was unchanged at 5.3%. Taking it in combination with other cooling labour market indicators, analysts do not see much to suggest that the labour market will drive renewed inflationary pressures ahead, particularly as forward looking indicators still allude to a slowing in wage growth. Fed Chair Powell in his remarks to Congress this week also acknowledged the trend where nominal wage growth has been easing recently. Oxford Economics said the average hourly earnings rising in line with the consensus (+0.3% M/M expected) would leave Y/Y growth at 4.5%, well above the 3.5% pace the Fed sees as consistent with 2% inflation. "We think the Fed will look past the early 2024 noise in the earnings data. Most other indicators of wage growth, including the employment cost index and our wage tracker, show a clear easing of wage pressures, and the decline in the quits rate in January points to moderation in the months ahead."

FED POLICY: The Fed's Beige Book notes that while employment rose at a slight to modest pace in most districts, overall, labour market tightness eased further. But the slowdown does not appear to be concerning officials; Fed Chair Powell this week noted again that labour market conditions remained relatively tight, where labour demand was still exceeding supply, adding that with the economy growing at a solid pace, the Fed can be careful in its approach to monetary policy. Traders are likely to resort to the recent playbook whereby any hawkish data (higher-than-expected wages, strong payrolls growth) will result in increased bets that the Fed could hold rates higher for longer (which would likely be negative for Treasuries and stocks, and positive for the USD), while any downside would embolden dovish views for rate cuts to come sooner. Currently, the market is pricing in around 88bps of rate easing this year (equating to three fully-priced 25bps rate cuts, with a decent chance of a fourth), with the first cut seen in June (with around 85% probability, judged by market pricing), and has fully discounted the chance of a rate cut by the July meeting.